
How Simple is Liquidation of a Strata Corporation?

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Liquidation is a dramatic step for a strata corporation and your community of owners, many of whom have probably lived there for 30+ years. The potential for errors, or the owners being at a disadvantage, is very high, so it is essential to follow some basic steps of decision making. There are two basic factors that affect a liquidation from the owners' perspective: value of the property and the condition of the property which can be assessed with the help of a depreciation report.

The information in the depreciation report could influence the owners decision to maintain versus liquidate; however, all strata corporations need to remember that until they have voted to liquidate, the strata corporation must still maintain and repair its property. Then consider the transaction costs associated with liquidation including brokerage fees, liquidation costs and legal fees, what's the right time and what's the right price?

It differs for every project based on land use and value. A project that may yield only the current assessment value could be a prudent decision if each owner is facing a \$100,000 special levy for repairs, whereas a development in great condition may not consider a sale unless they can see a 200-300% increase in value. For real estate value it is still the same three conditions: location, location, location.

In the fall of 2015, the *Strata Property Act* was amended, lowering the voting requirement for liquidation from 100% to 80% of the schedule of voting rights. Please note the amendments are not in force as the development of regulations are still required. Even though the change is significant, obtaining 80% of the total number of votes will be extremely difficult to achieve and will require an application to the Supreme Court of BC to approve the decision as part of the legislative amendment.

There are two methods of selling the property.

Option 1: A developer or speculator purchases all of the units directly from each owner. The strata is not involved in the liquidation process and the deal is fairly clean.

Option 2: a strata corporation votes for a liquidation which may be complicated. An advantage of this option is it gives the strata owners the collective ability to market their property for competitive bidding and obtain the best price.

Consumers want the best price and the best terms for their property before they will consider selling. To reach this objective, a logical process is helpful for the strata corporation to follow. They begin with a general meeting of the owners to determine if the owners want the council to investigate selling the property. The strata owners will vote by at least a majority vote to give council authority to start the process and to retain an independent lawyer who will act solely for the strata throughout the process. The strata council will also want to review proposals from a number of commercial brokers who will market the property, with negotiable fees generally from 1-2% of the total sale.

Once strata council has completed a legal review of the contract and retained a broker, the broker proceeds with marketing the property. Developers and land speculators will be invited to assess the property, and submit offers. The offers may take into consideration location, expanded development opportunity, transit and community access, neighbouring developments and amenities, plus the overall potential for the site. This phase usually takes 3-6 months.

When the broker finalizes a short list of generally 3-5 of the highest offers the strata council and their lawyer will meet to review the offers, perhaps counter offer and will consider the terms and conditions of the offer.

When the details are clear the final offer is tentatively agreed upon subject to the approval of the owners at a general meeting.

Once the final offer is approved in principle the complicated work begins. Around months 6-12 the final negotiation of the purchase conditions and price are completed and the strata's lawyer will prepare the 80% vote resolution that authorizes the liquidation, authorizes the court application to ratify the decision, and to appoint a liquidator. The liquidator will be responsible for the receipt of the money from the developer, the cancellation of each of your titles into one parcel of land, and the payout to each owner, their share of the proceeds after any charges on their property.

The resolution that the owners will vote on and the sequencing of the events is the most critical part of the transaction. You can easily expect a resolution that is many pages in length because the resolution must include all of the terms and conditions of the contracts, agreements, court applications, liquidation procedures and transfer of funds. One quirk of the liquidation process is owners who require their proceeds to make another purchase will have to wait until the job of the liquidator is complete before they can shop for a new home. Only when the liquidation process is complete do the owners receive their money, once any such as mortgages on their property are cleared. To provide time for owners to move and relocate, the strata may want to negotiate 60-120 days of occupancy after the completion of the liquidation, as part of the contract.

If everything goes well, plan on 12-18 months. The success depends on a number of information meetings and constant communication with your owners to prepare them for the vote and the emotional liquidation of their community. If you hope to have any success on your proposed liquidation, don't forget the owners have to find a new place to live once the deal is complete. Before you vote, an information meeting with the owners to help them understand what other property is available in the region is just as critical.

Strata Corporation Liquidation: Step-by-Step

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| Step 1 | <ul style="list-style-type: none"> The strata corporation is approached by a commercial agent, buyer or the strata council considers the option of investigating liquidation. | Month 1 |
| Step 2 | <ul style="list-style-type: none"> Strata council convenes an information meeting of owners to raise the idea of liquidating the strata corporation. This meeting helps council decide to move forward or not. | Months 2-3 |
| Step 3 | <ul style="list-style-type: none"> Strata council convenes a general meeting of the strata corporation to obtain: <ul style="list-style-type: none"> Authorization for strata council to investigate liquidation options Approval for funding for legal representation including: <ul style="list-style-type: none"> Reviewing terms and conditions of an offer Listing agreements, and Subsequent legal consultation | Months 4-5 |
| Step 4 | <ul style="list-style-type: none"> Strata council negotiates a listing agreement with a broker. The broker creates a listing profile and markets property. The broker presents offers to council. Strata council with the strata’s lawyer review offers and possibly makes counter offers. Strata Council convenes a general meeting to present the offer(s) to owners. Owners vote to: <ul style="list-style-type: none"> Proceed with having a lawyer draft the liquidation resolution and approve the funding needed to move forward (lawyer fees, liquidator fees, etc.), or Reject the offer and direct council to either continue to negotiate a better offer or stop all discussions on liquidation. | Months 4-8 |
| Step 5 | <ul style="list-style-type: none"> Continue to negotiate (if required) The strata corporations’ lawyer will review the terms and conditions of the offer, including possible counter offers. Once there is a final offer the strata’s lawyer will draft a resolution for owners to approve. Strata council calls a general meeting to vote on the 80% resolution. | Months 8-10 |
| Step 6 | <ul style="list-style-type: none"> Once the resolution is approved the strata corporations’ lawyer will commence the court application for liquidation. There may be conditions to meet before the appointment of a liquidator and vesting order granted/obtained/applied for? | Months 10-12 |
| Step 7 | <ul style="list-style-type: none"> Liquidation process complete Funds transferred to strata corporation Vesting order is filed by the liquidator Owners given 60-120 days to move | Months 12-18 |